

**BHS INDUSTRIES BERHAD (“BHS” OR “THE COMPANY”)
NON-RELATED PARTY TRANSACTION**

**APPROVAL OBTAINED FOR ADDITIONAL 35.41 ACRES OF LAND IN PEKAN, PAHANG FOR
CONSTRUCTION OF POWER GENERATION PROJECT USING SOLID WASTE**

1. INTRODUCTION

The Board of Directors of BHS Industries Berhad (“BHS” or the “Company”) is pleased to announce that the Company had on 10 March 2017 received from Pejabat Setiausaha Kerajaan Pahang (Pahang State Government) its approval via its letter dated 17 February 2017 (“**Approval Letter**”) granted the Company’s wholly-owned subsidiary, Ultimate Ivory Sdn. Bhd. (“**Ultimate Ivory**”) the land approval for additional 35.41 acres of land in Kg. Paloh Hinai, Mukim Lepar, Daerak Pekan, Pahang Darul Makmur (“**Additional Land**”) for a purchase consideration of Ringgit Malaysia Eight Hundred Seventy Three Thousand Four Hundred Forty Six And Sixty Six Sen only (RM873,446.66) (“**Purchase Consideration**”) (“**Acquisition**”).

The Additional Land is earmarked for construction of power generation project using solid waste (“**Project**”). Details of the Project are not available at this juncture as it is still in the preliminary discussion.

2. DETAILS OF THE ACQUISITION

2.1 Basis of arriving at the Purchase Consideration and Payment of Purchase Consideration

The Purchase Consideration was fixed by Pahang State Government. An amount of RM200,000.00 shall be paid by Ultimate Ivory as earnest money within one (1) month from the date of the approval letter.

The remaining balance is payable when demanded by Pahang State Government.

2.2 Salient terms of the Acquisition

Ultimate Ivory is required to:

- (a) comply with the conditions set by the Technical Departments such as the Departments of Irrigation and Drainage, Department of Environment, Forestry Department, Pengurusan Air Pahang Bhd, District Land Office, local authority and other departments before, during and after the Project;
- (b) carry out survey work at its own costs and submit the plans to Pahang State Government;
- (c) implement the Project within three (3) months from the date of approval and complete the Project within a period not exceeding two (2) years from the implementation date; and
- (d) table the execution schedule of the Project within one (1) month from the date of approval and the progress report within three (3) months from the date of approval to Pahang State Government.

2.3 Source of funding

The Acquisition will be financed through a combination of internally generated funds and bank borrowings. The exact mix of the internally generated funds and bank borrowings will be decided by the management at a later stage taking into consideration the gearing level, interest costs as well as internal cash requirements for the business operations of BHS and its subsidiary companies (“Group”).

2.4 Liabilities to be assumed and additional financial commitment

There are no liabilities, including contingent liabilities and guarantees, to be assumed by BHS and Ultimate Ivory pursuant to the Acquisition. The Board does not expect to incur any additional financial commitment for the Acquisition.

3. INFORMATION ON THE LAND

The Land is situated at Kg Paloh Hinai, Mukim Lepar, Daerah Pekan, Pahang Darul Makmur.

4. INFORMATION ON ULTIMATE IVORY

Ultimate Ivory was incorporated in Malaysia on 18 October 2011 as a private limited company. Ultimate Ivory is primarily involved in industrial park development and management. The current share capital of Ultimate Ivory is RM500,000 represented by 500,000 ordinary shares.

5. RATIONALE FOR THE ACQUISITION AND PROSPECT OF THE LAND

The Acquisition will complement the Company’s project at Green Technology Park, Pekan (“GTP Pekan”) as the Additional Land is adjacent to GTP Pekan and will be used to house a project to generate and supply cost efficient power using solid waste to GTP Pekan upon completion of the Project.

Also, the Acquisition is expected to contribute positively to the future earnings and thereby improve shareholders’ value over the medium to long-term.

6. RISK FACTORS

The key risk factors in relation to the Acquisition which could have an impact on the future prospects of the Group include, but are not limited to the following:

6.1 Financing risk

The Group intends to finance the Acquisition through a combination of internally generated funds and bank borrowings. Utilisation of internally generated funds may result in a reduction of funds available for working capital purposes whereas obtaining additional bank borrowings may increase the borrowings and gearing level of the Group. As such, the Acquisition may have an adverse effect on the cash flow position of the Group.

Further, the Group may incur interest expense on the bank borrowings to be obtained. In view that the interest charged on bank borrowings is depending on prevailing interest rates, future fluctuation in interest rates could materially affect the Group’s cash flows and profitability.

Nevertheless, the Group shall use its best endeavours to manage its cash flow position and funding requirements. The management of BHS believes that its prudent cash flow management will be able to address the financing risk.

6.2 Completion risk

There is no completion risk as the Additional Land was granted and approved by the Pahang State Government to Ultimate Ivory as stated in Section 1 above.

7. EFFECTS OF THE ACQUISITION

7.1 Share capital and substantial shareholders' shareholdings

The Acquisition does not involve any issuance of new shares in the Company and therefore will not have any effect on the share capital and substantial shareholders' shareholding of the Company.

7.2 Earnings and earnings per share

The Acquisition is not expected to contribute positively to the earnings of BHS and it would not impact on the earnings and earnings per share of the Group for the financial period ending 30 June 2017.

7.3 Net assets ("NA") and gearing

The Acquisition will not have any material effect on the NA of the Group for the financial period ending 30 June 2017. As set out in Section 2.3 above, the Acquisition will be funded through a combination of internally generated funds and bank borrowings of which the final composition of the funding will be determined by the management at a later stage.

For illustrative purposes, assuming that 50% of the balance of Purchase Consideration amounts to approximately RM450,000 is funded by bank borrowings and that the Acquisition had been completed as at 30 June 2016, the pro forma effects of the Acquisition on the consolidated NA and gearing of BHS based on the audited financial statements of BHS as at 30 June 2016 are as follows:

	Audited As at 30 June 2016 RM'000	After the Acquisition RM'000
Share capital	104,786	104,786
Reserves	7,172	7,172
Equity attributable to owners of the Company	111,958	111,958
Total equity	111,958	111,958
Borrowings	10,228	10,678 ^(a)
Gearing (times)	0.09	0.10

Note:

(a) Assuming 50% of the Purchase Consideration amounting to approximately RM450,000 is funded by bank borrowings.

8. APPROVALS REQUIRED

The Acquisition is not subject to the approval of BHS's shareholders and/or any other relevant authorities and is not conditional upon any other corporate proposal.

9. PERCENTAGE RATIOS

The highest percentage ratio applicable to the Acquisition pursuant to paragraph 10.02 (g) of the Main Market Listing Requirements of Bursa Securities is 0.78%, based on the latest audited consolidated financial statements of the Company for the financial year ended 30 June 2016.

10. DIRECTORS AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and/or substantial shareholders and/or persons connected with them has any interest, whether direct or indirect, in the Acquisition.

11. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Acquisition, including but not limited to the rationale of the Acquisition is of the opinion that the Acquisition is in the best interest of the Company.

12. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Acquisition is completed when full payment is made for the Additional Land and the title to the land is issued.

13. DOCUMENTS AVAILABLE FOR INSPECTION

The approval letter for the Additional Land is available for inspection at the Registered Office of the Company during normal office hours from Mondays to Fridays (except public holidays) at 802, 8th Floor, Block C Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan.

This announcement is dated 13 March 2017.